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MONTANA RAIL PLANNING NEWSLETTER

PREPARED BY: RAIL PLANNING UNIT, MONTANA DEPARTMENT OF HIGHWAYS

Public Information Meeting Announced

A public information meeting on the draft **Montana Rail Plan** has been scheduled for Monday, August 6, 1979 at 7:30 p.m. in the auditorium of the Department of Highways Building in Helena. All persons interested in rail planning in Montana are invited to attend.

Two short presentations will be made by Department officials before opening the meeting up to the public for their views and comments on the **Montana Rail Plan** and related matters. The first will review past events and the present status of the Milwaukee reorganization. The second will summarize the findings of the rail study and the resulting recommendations.

All oral statements made will be recorded. Those wishing to make statements should contact Mr. John Craig in advance of the meeting for scheduling purposes. Submission of written copies of prepared statements will be appreciated.

All comments and information received will be considered by the Department in preparing the final **Montana Rail Plan.**

Copies of the draft Montana Rail Plan will be available for review prior to the August 6th meeting at the eleven Highway Division Offices, the libraries of the Montana University System and through the State Federation of Libraries.

Summary of the Montana Rail Plan

The **Montana Rail Plan** has been prepared pursuant to Section 803 of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act). This Act requires states to prepare a plan for rail services to become eligible for Federal rail service assistance. The Legislature assigns primary responsibility for systems or mainline planning to the Federal government and the railroads, individually and collectively. Consequently, most of the technical study done in preparing this plan document has focused on the merits of the ten light density lines presently or potentially the subject of an abandonment proceeding before the Interstate Commerce Commission (ICC). These lines are listed on the following page.

LIGHT DENSITY LINES FOR WHICH DETAILED ASSESSMENTS HAVE BEEN COMPLETED

	Line	Between (Termini)	ICC Category [1]	Length (mi.)
1.	MILW	Agawam-Great Falls	1, 3	69.6
2.	MILW	Great Falls-Lewistown	1	134.5
3.	MILW	Lewistown-Harlowton	1	61.0
4.	MILW	Lewistown-Winifred	3	42.7
5.	MILW	Lewistown-Heath	1	9.2
6.	BN	Moccasin-Lewistown	1	30.7
7.	BN	Hogeland-Saco	1	79.3
8.	BN	Red Lodge-Silesia	3	34.5
9.	MILW	Ringling-Dorsey[2]	3	22.8
10.	BN	Glasgow-Glasgow AFB	1	18.8

[1] 1 - subject to abandonment within three years; 2 - under study for possible future abandonment; 3 - abandonment application pending.

[2] 3.5 miles owned by the Milwaukee, the remainder by the White Sulphur Springs and Yellowstone Park Railroad. (WSPYPR leases portion owned by MILW, for which an abandonment application has been filed)

The **Montana Rail Plan** was prepared following a carefully defined work program comprised of the following components:

- Designing and conducting a survey of rail-dependent firms located on the above lines to determine the characteristics of the firms and detailed information on rail shipments and receipts during 1978.
- Assessing the impacts that would occur upon rail-dependent firms and the surrounding communities were rail service discontinued. Impacts include economic, environmental, energy, social, and highway system effects. From this, the cost of discontinuing rail service was determined for each line.
- Conducting a financial analysis of the profitability of each line to the owning railroad. This involved comparing attributable revenues and avoidable costs to determine the net cost of continuing rail service for each line. In addition, rehabilitation needs and costs were also assessed.
- Investigation substitute service possibilities involving changes in rail service or the use of alternative modes.
- Preparing detailed assessments for each line studied.
- Preparing the state rail plan document in conformance with federal requirements.

As a consequence of this work, the Department has concluded that Montana should seek federal assistance to rehabilitate the (1) Agawam to Great Falls, (2) Great Falls to Lewistown, and (3) Lewistown to Harlowton lines. All three are Milwaukee lines. This result stems from the inherent profitability of the lines, rather than from the desire to retain the Milwaukee as a competitor to the Burlington Northern. While no economic basis exists for abandonment, the Milwaukee has already served notice of its intention to abandon those lines as part of its reorganization efforts. Thus abandonment is a very real possibility, institutionally.

Federal assistance is not being sought for the remaining seven lines for one or more of the following reasons:

- The cost of discontinuing rail service is low, indicating that the community impacts resulting from potential abandonment are small.
- The cost of discontinued service divided by the cost of continued service ratios are low. These ratios, analogous to a benefit-cost ratio, should be at least 1.5 (or higher) to justify public investment in keeping marginal or unprofitable rail services going.
- The line is uneconomic to the owning railroad (i.e., attributable revenues are less than the avoidable costs), thus necessitating continuing shipper or governmental subsidization of operations.
- While there is the possibility that abandonment of any one of these lines might be counter to Montana's long-term interest in view of changing energy availability and price, there is at present little demonstrated need for retaining rail service under these circumstances.
- While the line may have sufficient traffic potential from ongoing or expected economic development to become profitable within a short period, the lack of funds and any immediate pressing needs obviates the possibility of including these lines in Montana's Section 803 program, at least for now.

MDH does not encourage the owning railroads to abandon these lines. However, it fully recognizes the economic reasons underlying the possible abandonment of these lines and will not oppose such action so long as it can be proven that the line is indeed unprofitable and provided that no significant local impact would occur with abandonment.

How does the above relate to the larger question concerning the future of the Milwaukee in Montana? Shouldn't this be the main focus of rail planning efforts, rather than concentrating on ten relatively unimportant light density lines? What efforts are being undertaken to save all or portions of the Milwaukee system in Montana? The bankruptcy of the Milwaukee and expecially the recent efforts of the Trustee to embargo rail service in the west has led to increased interest in seeking a solution for the Milwaukee other than a retrenchment to a midwest core system. The U.S. District Court overseeing the Milwaukee reorganization has directed the Trustee to submit a plan by August 6. While the specific details of this plan, it obviously will depend heavily on the financial studies conducted for the Trustee by Booz, Allen & Hamilton.

As an alternative to this plan, considerable interest has been expressed in employee and shipper ownership of a railroad which would be a true replacement and successor to present railroad management. A "New Milwaukee Organization" has been proposed to develop a specific organizational, financial, management and marketing plan for a "Milwaukee lines west" railroad. Montana supports the New Milwaukee Organization in its efforts to create an employee and shipper owned railroad replacing the bankrupt Milwaukee.

Simultaneously with the above, South Dakota has proposed a short and longer term program of rehabilitating the Milwaukee mainline between Jonathan, Minnesota and Miles City as a means of preserving essential coal movements to electric generating stations in the state and Minnesota. Both Section 803 and 505 funds would be used for this purpose. While prepared to "go-it-alone" on this project, South Dakota has sought to broaden the sponsorship of what is essentially a regional project by including the other states benefiting from retention of this portion of the mainline (i.e., Minnesota, North Dakota, and Montana). At this point, Montana has not elected to join in this project.

What happens if the above efforts fail and the Burlington Northern then becomes the dominant carrier in Montana? Is this necessarily bad? No, but it does have the effect of reducing the leverage that the state government and shippers have in rate and service matters. Is there any other possibility should the alternatives presented fall by the wayside?

One promising "substitute service" type concept, applicable particularly to the grain lines in central Montana, would be to construct a grain subterminal in the general Lewistown area allowing the use of unit grain trains. Grain shipments presently made by rail from grain public warehouses located along the Milwaukee (and other lines) would instead be trucked to the centralized facility where it would be loaded into 100-ton hoppers. Shipments would be made in 50-car units, thus introducing economies of scale which would be reflected in better utilization of the car fleet and more reliable service. Its practicality of grain subterminal rests on (1) being able to pass along significant economic benefits (transport cost savings) to the farmers, grain elevator operators, and railroads, (2) a willingness on the part of grain warehouses to combine together their shipping requirements into unit train quantities bound for a single destination, while retaining their independence and competitiveness in all other areas, and (3) the availability of capital funds to construct a strategically located grain subterminal and make necessary improvements to the highway system to sustain the "collector" trucking required in support of the terminal. This concept is the only long-term, technologically advanced solution possible today.

There is no question that the preparation of this state rail plan would have been far easier had the Milwaukee's future been settled, one way or another. While the merits of the individual Milwaukee lines can be readily assessed on the basis of whether the Milwaukee stays or goes, the selection of projects cannot. Allocation of Montana's Section 803 allotment vis-a-vis Milwaukee lines is a function of (1) who is the ultimate owner and/or operator, including financial capability, (2) how much of the present system is to be retained, (3) anticipated short-term needs for rehabilitation funding -- especially for "emergency" type projects or "spot" improvements to prevent or minimize service interruptions pending determination of appropriate long-term solutions, and (4) the results obtained from the proposed grain subterminal feasibility study. Given the present situation, one list of projects and their assigned priorities is impossible. Consequently, separate project lists have been developed for the different reorganization plans or extensions thereof. These project lists have the following general thrust:

- Emergency or spot repair projects on the Milwaukee's 10th, 11th, 13th, and 14th subdivisions using FY 1979 Section 803 funds.
- Long-term rehabilitation of the above Milwaukee lines using FY 1980 (and beyond) Section 803 funds primarily if the lines are retained by the Milwaukee or successor Organization (e.g., the New Milwaukee Organization).
- Otherwise, investment in a grain subterminal in the Lewistown area using FY 1980 (and beyond) Section 803 funds, if the various alternative to the Trustee's Reorganization Plan are unsuccessful and further study shows the subterminal concept to be feasible.

What Next?

What comes after the public information meeting?

First, those who desire to submit comments on draft **Montana Rail Plan** (or the summary contained in this Newsletter) should do so on or before August 13. This deadline is necessary so that the final plan document can be prepared, printed, and submitted to the Federal Railroad Administration prior to September 1, 1979.

Why the rush? Montana must have an approved state rail plan in order to obtain Section 803 funding of rail projects. If this plan is not approved by September 30, 1979, Montana's FY 1979 Section 803 allotment will then be reallocated to other states. Thus, Montana stands to lose approximately $670 thousand in funds which could otherwise be used to improve rail transportation in the state. MDH will make application for these project funds concurrent with the submission of the final **Montana Rail Plan** to the Federal Railroad Administration.

Is this the end of rail planning? No. First of all, the Title VIII program is now a permanent program, with funds being allocated on an annual basis.[1] Much of the rail planning effort will shift to project implementation, that is, the preliminary engineering, contracting, and supervision necessary to carrying out the improvements recommended in this plan document. The state rail plan will also be periodically updated as conditions change and new needs arise. A grain sub-terminal feasibility study has been proposed. This is but the start of many planning and engineering endeavors all designed to improve the rail system in Montana.

Background on the Milwaukee and Recent Reorganization Proposals

The origins of the dire financial situation faced by the Milwaukee stem from annual losses incurred on a more or less regular basis during the 1970's which finally resulted in bankruptcy being declared on December 19, 1977. Normally when such an event occurs, the firm involved is closed down and the assets are then disposed of with the proceeds going to the creditors. Since closing down a railroad company usually causes severe economic ramifications on firms dependent upon rail service, Congress many years ago set up a special process for reorganizing railroads forced into bankruptcy while at the same time continuing essential services. Upon petitioning for bankruptcy under section 77 of the Federal Bankruptcy Act, the U.S. District Court overseeing the case appointed a Trustee to oversee the reorganization of the Milwaukee on a self-sustaining basis or its liquidation (or some combination of the two courses of action). The process involved is inherently a confrontation between the interests of the creditors, who seek to prevent any further diminuation of their assets, and the shipping public who seek the continuation of essential rail service.

How did the Milwaukee get into this situation? To understand the underlying cause, one must review the history of the Milwaukee's northwest extension. The Milwaukee was the last of the three trans-continental carriers which developed mainline routes through Montana to Washington and Oregon. Consequently, it was not able to select the best routes through the mountains, nor was it a land grant railroad able to obtain extensive properties

[1]The allocation formula is based partly ICC system category 1 and 2 mileage (lines under study and lines to be abandoned within three years) and partly on total rail system route mileage within a state as compared with national totals.

through legislation to encourage settlement in proximity to the railroad. The Milwaukee never was able to develop on-line traffic comparable to the Northern Pacific or Great Northern (now Burlington Northern). Most of the Milwaukee's Montana traffic either originates on its central Montana branches -- specifically, the grain lines between Harlowton, Lewistown and Great Falls -- or at Deer Lodge, Bonner, Missoula, or Frenchtown (Schilling) on the mainline. Other than for this traffic, the mainline is largely a conduit for through traffic moving between the midwest and the west coast. In short, the Milwaukee did not generate enough income on its midwest operations to offset the losses being incurred on its northwest extension.

In the summer of 1978, the Trustee, concluding that the northwest extension was inherently unprofitable, announced a plan whereby Milwaukee Lines west of Butte were to be sold to connecting railroads or to be abandoned. The disposition of the remaining lines was to be held in abeyance until completion of financial studies undertaken by Booz, Allen & Hamilton, a well-known management consulting firm, for the Trustee.

In late April 1979, the Trustee concluded that the cash flow situation had become so severe that rail service had to be discontinued on a majority of the Milwaukee trackage (including lines in Montana west of Miles City) and petitioned the U.S. District Court to approve this course of action. Normally the ICC has exclusive say over line abandonments; unilateral termination of rail service is only done in extremely dire circumstances. On June 1, 1979, theCourt denied the partial embargo requested by the Trustee, since it could find no statutory or other authority for granting the requested relief. This was done reluctantly, as the Court felt that the Trustee's proposal would promote the public interest.[1] The court decision was a serious blow to the Trustee's efforts to reorganize the Milwaukee and did nothing to solve the railroad's precarious cash position. Consequently, attorneys for the Trustee have filed an appeal to the Court's decision; the original court decision has subsequently been upheld.

On June 19, 1979, the Trustee received Court approval to apply to the FRA for a loan of $20 million.[2] In approving the loan, the Court ordered the Trustee to immediately "commence proceedings to abandon the Milwaukee's entire system and, to the extent this is not authorized by any Title VIII map not already published, to publish and file such a map as soon as feasible." He further ordered that the Trustee file a plan of reorganization on or before August 6, 1979, "such plan to include reorganization by abandonment and liquidation to the extent deemed advisable or necessary." The Court did not order the Trustee to abandon the entire railroad, but rather to develop and file a reorganization plan which would be the basis for the abandonment of existing routes.

On June 30, 1979, the Milwaukee filed a revised systems diagram map with the ICC showing all lines as subject to an abandonment application within three years. This does not necessarily mean abandonment of the entire Milwaukee system: but rather provides maximum flexibility to the Trustee in deciding which segments are to be eventually included in the core system. It also provides the four month notification required before abandonment applications can be filed with the ICC.

The Milwaukee has also announced its intention to file abandonment applications for all of its lines west of Butte on or about August 8.[3] These lines have been shown as "subject to abandonment within three years" on its previous systems diagram map filed with the ICC during the summer of 1978. Furthermore, in view of intense publicity surrounding the Trustee's embargo request, the Milwaukee has indicated that it will seek a waiver from the ICC reducing or eliminating the four-month notification requirement before filing abandonment applications for the remaining lines identified in its embargo petition to the U.S. District Court.[4] Although the ICC can take up to 15 months to rule in abandonment proceedings, the agency has promised expeditious consideration of these applications. Decisions could come before the end of 1979.

The ultimate decision on how the Milwaukee is to be reorganized rests with the U.S. District court. The Trustee has been directed to submit a plan by August 6. While the specific details of this plan are unknown, it obviously depends heavily on the financial studies conducted for the Trustee by Booz, Allen & Hamilton. The Court is not necessarily bound by this proposal, but can accept all or parts of other plans or proposals from parties recognized by the Court.

As an alternative to a "retrenched" Milwaukee system only serving the midwest, considerable interest has been expressed in recent months in employee and shipper ownership of a railroad which would be a true "replacement and successor" to present railroad management. For years, much controversy has centered around the management and financial practices of the Milwaukee and the railroad's basic desire to compete for rail traffic in Montana and other states. These concepts were given a major boost by the petition of the Trustee in requesting an embargo on nearly 7,000 miles of track and the aggressive action of the State's Congressional delegation in seeking emergency funding for continuing rail service on the Milwaukee and in promoting U.S. Department of Transportation study and development of an employee and shipper ownership plan for the railroad. Both Montana Senators were active participants in the Court proceedings. However, the Court clearly indicated that solutions for continuing the Milwaukee had to be found at the governmental level. For some time, the Chairman of the Senate Finance Committee has been deeply interested in employee-owned corporate structures; the Montana delegation was able to convince the Chairman of the practicability of such ownership for a railroad and obtain a commitment of support in seeking necessary federal start-up and rehabilitation funding, provided that the firm commitment of regional shippers and railroad employees could be demonstrated.

This development spurred action at the state level. A prospectus was developed for a "New Milwaukee Organization" to serve as a mechanism for putting together a new railroad corporation having the objective of ensuing continued, competitive rail service in regions currently served by the bankrupt Milwaukee. Specifically, the Organization was assigned the following functions:

(1) Develop a specific organizational, financial, management and marketing plan for a shipper and employee owned railroad company which would provide railroad service either from Minneapolis west to Seattle, or over the entire present Milwaukee system.

(2) Intervene in the Milwaukee Road Bankruptcy proceedings to protect the interest of the Organization.

(3) Intervene in the Milwaukee Reorganization proceedings before the Interstate Commerce Commission to protect the interests of the Organization;

(4) Negotiate with the Milwaukee Bankruptcy Trustee for acquisition of railroad assets;

(5) Interact with members of Congress and with federal agencies to develop legislation necessary for the new railroad company's operation, to obtain needed studies and technical assistance, to obtain loans and other necessary financial assistance for the new railroad, and to otherwise gain positive intervention on various Milwaukee-related proceedings;

(6) Interact with state and local officials to coordinate with state rail plans to insure compliance with applicable state laws and local ordinances, to investigate potential state sponsored financing, and to gain intervention on Milwaukee-related proceedings;

(7) Develop the corporate structure for the new railroad company, and make necessary filings before the Interstate Commerce Commission and the Securties and Exchange Commission;

(8) Establish an identity for the new railroad reflecting a more progressive modern and responsive image than that currently existing for the Milwaukee Road;

(9) Stimulate and coordinate various additional related studies by various university-based, public, and/or private research organizations, and to gain appropriate intervention in Milwaukee-related proceedings.

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[1] The Court also stated that allowing an embargo could "constitute a de facto abandonment," since the Trustee conceded that he would not be able to reorganize the Milwaukee "if it contains the portions sought to be embargoed."

[2] The funds requested are part of the $50 million available through the Emergency Rail Services Act of 1970.

[3] The Milwaukee has issued and published in area newspaper Notices of Intent to File Abandonment Applications for all segments west of Butte.

[4] The Milwaukee is seeking a waiver of the four month notification requirement, Montana will file a protest with the ICC of this action as providing inadequate notification to shippers dependent upon Milwaukee service.

Funding for the expected six month life of the New Milwaukee Organization is anticipated to come from the Old West and Pacific Northwest Regional Commissions ($200,000 each), rail employee organizations ($300,000), Milwaukee shippers ($300,000), and Federal technical assistance grants ($300,000). The various groups have already been asked to participate; to date, a portion of the $1.3 million in funds has been raised. Efforts are currently underway to appoint a Board of Directors and to hire an administrator and appropriate technical staff and consultants to undertake the required technical, legal, and organizational work.[5]

A somewhat different approach has simultaneously been taken by the State of South Dakota as a consequence of the embargo petition. Recognizing the severity of the economic impacts upon electric power consumers and agricultural interests in that state, the South Dakota Department of Transportation proposed a formal agreement in which the agency pledged $2.3 million to the Milwaukee for the purpose of funding the immediate rehabilitation of the Miles City to Jonathan, Minnesota mainline trackage.[6]

While South Dakota is prepared to proceed with this project, it has sought to broaden the sponsorship of what is essentially a regional project by including the other states benefiting from retention of this segment of the Milwaukee mainline (i.e., Minnesota, North Dakota, and Montana). Specifically, South Dakota has proposed that each of the four states utilize a portion of each state's Title VIII entitlement to provide the federal share of the $2.3 million "immediate" rehabilitation project, with the shippers providing the required matching funds. South Dakota further proposed proportioning costs based on the expected increase in the cost of power times that state's share of combined consumption base. Under this proposal, South Dakota, North Dakota, Minnesota, and Montana would each be assessed 27, 44, 20, and 9 percent of the federal portion of project costs, respectively.[7] Since then, several alternate methods for apportioning costs have been proposed, each having the effect of increasing Montana's assessment.[8] No decision has been reached on how costs would be shared for this project among the participating states, although an early decision is requisite so that necessary Title VIII funds can be obtained to permit accomplishment of rehabilitation work in 1979.

The purpose of the $2.3 million immediate rehabilitation project is to counter the effects of an extended period of deferred maintenance. This project provides for the replacement of 70 thousand cross ties between Big Stone City, South Dakota, and Marmarth, North Dakota, and the addition of 15,000 tons of ballast. This is the maximum effort which can be accomplished in the time available before winter. Without this project, a further reduction in speeds may be necessary which would jeopardize the one-day turnaround presently being provided by the Milwaukee for the unit coal train. South Dakota will administer this project on behalf of the other three states.

The $2.3 million project is only a temporary solution; full rehabilitation necessitates the expenditure of an additional $22.7 million over a three to four year period to replace 569 thousand cross ties and 3.2 miles of rail at Aberdeen, South Dakota, plus 300 miles of re-ballasting. The object is to upgrade the track so that 50 mph speeds can be maintained over the entire length of the line under normal conditions. Funding for this latter project will be sought under the low interest loan provisions of Section 505 of the 4R Act. The Milwaukee will apply for and be responsible for the repayment of these funds. South Dakota will form a Regional Rail Authority, as authorized under existing legislation, to co-sign as a guarantor for the Milwaukee on the funds borrowed for this long-term rehabilitation, thereby providing indemnification of the loan in case of default. In the event the Milwaukee does not survive, the Regional Rail Authority would structurally and financially assume ownership of the line and would then either operate the line directly or lease it to another carrier.

Irrespective of the decisions reached by the other states, South Dakota is prepared to "go-it-alone" on this project, thus retaining Milwaukee service as far west as Miles City. Another somewhat remote possibility would be to accept the concept being utilized by South Dakota, extending the mainline to Butte or further west instead of ending the project at Miles City. Such a concept would (1) provide a connection with the Union Pacific at Butte in addition to the connection with the Burlington Northern at Miles City, thus retaining some degree of intramodal competition on shipments to the west coast for traffic originating east of Miles City; (2) allow for the retention as a single entity of the Milwaukee branch line serving Moore, Lewistown, Denton, Geraldine, Highwood, Great Falls and Fairfield, a rather profitable grain line; (3) provide access to potential coal deposits in the Roundup area; and (4) provide continuing service to a number of shippers dependent upon continued rail service.[9]

Under this concept, the objective is to provide local rail service, rather than to be a part of a reconstituted transcontinental route. This concept could be further extended to include the segment between Butte and Schilling, which would then allow for continued rail service to major traffic generators at Bonner, Missoula and Schilling.[10] An extended line could be operated by the Milwaukee, if agreed to by the Trustee and the U.S. District court overseeing the reorganization, or another carrier provided that arrangements can be made to purchase the required Milwaukee trackage.[11]

All alternatives to the reorganization plan being developed by the Trustee seek, in varying degrees, (1) some partial alternative to anticipated, near total Burlington Northern domination of the rail freight business in the northwest, (2) retention of rail service at critical points not served by another carrier, and (3) the preservation of jobs. If either the New Milwaukee Organization or an "extended" South Dakota proposal fail to gain widespread public support or acceptance by the U.S. District Court overseeing the Milwaukee reorganization, then the near total loss of competitive rail service in Montana becomes inevitable. Each of the alternatives presented has a different degree of risk associated with it. Also a factor is timing -- (1) whether the New Milwaukee Organization receives the governmental support and financial commitment, within the next month or two, necessary to demonstrate the ability to "pull it off," (2) the desire of South Dakota to proceed ahead with rehabilitating the Milwaukee mainline between Jonathan and Miles City during the 1979 construction season, and (3), the mandate of the U.S. District Court upon the Trustee to proceed rapidly with reorganization, including the abandonment of those lines not included within the restructured system. There is also a strong possibility that many of the more profitable segments of the Milwaukee system may be sold to connecting carriers; whether the more viable sections are transferred depends upon the resulting price.[12] While such negotiations have been in progress for some time, no agreements have yet been reached or announced. This could occur with the issuance of the Trustee's reorganization plan expected on or before August 6. ICC approval is required of such transfers, however.

What happens if the Burlington Northern becomes the dominant carrier in Montana? Is this necessarily bad? No, but it does have the effect of reducing the leverage that the state government

[5] The Board is proposed to consist of 15 members, of which 9 would be appointed by the Governors of the affected states, 3 chosen by Milwaukee employees, and 3 chosen by Milwaukee shippers.

[6] Most of the local traffic on the Milwaukee mainline is a unit coal train originating at Gascoyne, ND, and destined to the Big Stone and Ortonville Power Plants located near the South Dakota - Minnesota state line. Local service is also provided to grain elevators located along this line. In addition, the Milwaukee presently handles "Columbia One" alternately with the Burlington Northern. This is a unit coal train originating in the southern Montana coal fields and destined for Wisconsin. Presumably, the Milwaukee will seek to retain this coal traffic, if the Jonathan - Miles City line is retained. If the line was abandoned, South Dakota stands to lose 48 percent of its rail system, including its connections to the west. These connections may become of increasing importance should the marketing of grain shift to the west coast.

[7] Under this proposal, Montana's share should be approximately $125 thousand.

[8] Under one, Montana's share could range as high as $448 thousand.

[9] Including the White Sulpher Springs and Yellowstone Park Railway, which would be isolated were the Milwaukee mainline abandoned.

[10] Deer Lodge, Missoula, and Schilling are also served by the Burlington Northern. A better solution would be to consolidate facilities and services, rather than retain duplicate trackage.

[11] A shortline operator would also be a possibility.

[12] Generally, these segments would only include the major traffic generating points and whatever trackage is necessary to connect the segment with acquiring carriers' existing rail lines.

and shippers have in rate and service matters. Shippers consequently must rely on intermodal competition to keep service and price within reason. It is important to recognize that competitive rail service only exists today within or between a relatively few areas in Montana. Some of the major Milwaukee shippers are also Burlington Northern shippers. In these cases, the choice of railroad (and the somewhat lower Milwaukee tariffs for some movements) will be lsot, although rail access remains. In other cases, the Burlington Northern or Union Pacific may simply be the replacement carrier.

Is there any other possibility should the alternatives presented earlier fall by the wayside? One promising "substitute service" type concept, applicable particularly to the grain lines in central Montana, would be to construct a grain subterminal in the general Lewistown area allowing the use of unit grain trains. Grain shipments presently made by rail from grain public warehouses located along the Milwaukee (and other lines) would instead be trucked to the centralized facility where it would be loaded into 100-ton hoppers. Shipments would be made in 50-car units, rather than by single cars as at present. Such a subterminal could eventually permit the retirement of many light density lines in central Montana. The chief virtue of the grain subterminal concept is that it introduces major economies of scale which would be reflected in better utilization of the car fleet (probably dedicated equipment) and more reliable service (use of unit trains) eliminating the local service and switching operations presently taking place (enroute). It is a concept which is not now in existence anywhere in Montana, although is quite common in the midwest. Its practicality rests on (1) being able to pass along significant economic benefits (transport cost savings) to the farmers, grain elevator operators, and railroads, (2) a willingness on the part of grain terminals to combine together their shipping requirements into unit train quantities bound for a single destination, while retaining their independence and competitiveness in all other areas, and (3) the availability of capital funds to construct a strategically located grain subterminal and make necessary improvements to the highway system to sustain the "collector" trucking required in support of the terminal. This concept is the only long-term, technologically advanced solution possible today. It does require a throughput of at least 100 thousand tons per year, with five thousand ton shipments to single destinations.

Neither the Department of Agriculture nor the Department of Highways have had sufficient time to thoroughly investigate the grain subterminal concept -- to perform the microeconomic and transport system analyses necessary to establish whether the concept is economically viable for application in central Montana. Equally important are the institutional aspects -- the need to work closely with farmers/farm organizations, grain public warehouse operators, trucking interests, local officials, and railroad personnel to solve the myriad of concerns, problems and complications arising from such drastic change. Further study is required to determine whether this concept would provide some of the benefits normally associated with competitive rail service, and thus represents a viable alternative which could be implemented in lieu of the continuation of conventional rail service.

In the preceeding paragraphs, several alternatives to or extensions of the Trustee's expected reorganization plan have been presented. Events over the next few months will probably resolve much of the uncertainty which now exists. Either one of these alternatives is going to gain substantial government, shipper or labor support, or they are just going to be quietly forgotten as the Trustee presses forward with reorganization of the Milwaukee. Ultimate responsibility rests with the U.S. District Court overseeing the reorganization of the Milwaukee and the Interstate Commerce Commission.

Montana Rail Plan-Phase II: Summary of the Individual Light Density Line Assessments

Before presenting the results of the individual light density line assessments, three factors must be kept in mind.

1. Not withstanding recent Montana initiatives in support of the "New Milwaukee Organization," the role of states in rail planning is primarily in the field of local rail service. The 4R Act assigns the primary responsibility for systems or mainline planning to the Federal government and the railroads, individually and collectively. Consequently, most of the technical study done in preparing this plan document has focused on the merits of the ten light density lines presently or potentially the subject of an abandonment proceeding before the ICC.
2. Section 803 funds can legally only be used on lines carrying three million gross tons per year or less.[1] This density requirement excludes such lines as the Milwaukee's mainline, which in 1977 carried approximately ten million gross tons per year. Desirable as it might be there is no way in which such funds could be used to rehabilitate the Milwaukee mainline, unless most of the through traffic were transferred to other transcontinental routes.[2] Thus, Montana does not have the option of utilizing Section 803 funding on the Milwaukee mainline under a "New Milwaukee Organization" or comparable reorganization alternative.
3. Given the present uncertainty associated with the five Milwaukee lines included in the rail study, each has been assessed assuming (1) the Milwaukee or a successor stays and (2) that portions of it are sold to connecting carriers. The purpose of this was simply to determine whether, investment in the line using Section 803 funds was worthwhile irrespective of whom the ultimate operation might be.

Technical Appendix A of the **Montana Rail Plan** presents full details on the findings reached for each line. The following summarizes the results obtained.

Line 1: Agawam to Great Falls

This line, which consists of most of the 14th Subdivision of the Chicago, Milwaukee, St. Paul and Pacific Railroad's Montana Division, extends from the railroad bridge across the Missouri River at Great Falls to Agawam, a distance of approximately 65.6 miles in Cascade and Teton Counties. By application filed November 27, 1978, the Milwaukee Road is seeking authority to abandon a portion of this branch extending from Fairfield to Agawam, a distance of 31.3 miles in Teton County. Shippers located at Choteau would continue to receive Burlington Northern rail service over trackage currently owned and operated jointly by the Burlington Northern and Milwaukee Road between Eastham Jct. and Choteau Jct. This joint trackage is a portion of the Burlington Northern's Vaughn to Pendroy branchline. The remainder of the line is affected by the Milwaukee's announced intention to abandon all lines west of Miles City.

Based on MDH calculations, the line appears to return a $151

[1] The U.S. Secretary of Transportation can grant an exception to this density requirement for lines carrying up to five million gross tons per year. Gross tonnage includes the weight of the paver and rolling stock in addition to the commodities being transported.

[2] In proposing the retention of the Milwaukee mainline between Jonathan, MN and Miles City. South Dakota determined that the remaining unit coal train and local traffic would amount to slightly less than five million gross tons per year in 1978 after elimination of all other through traffic.

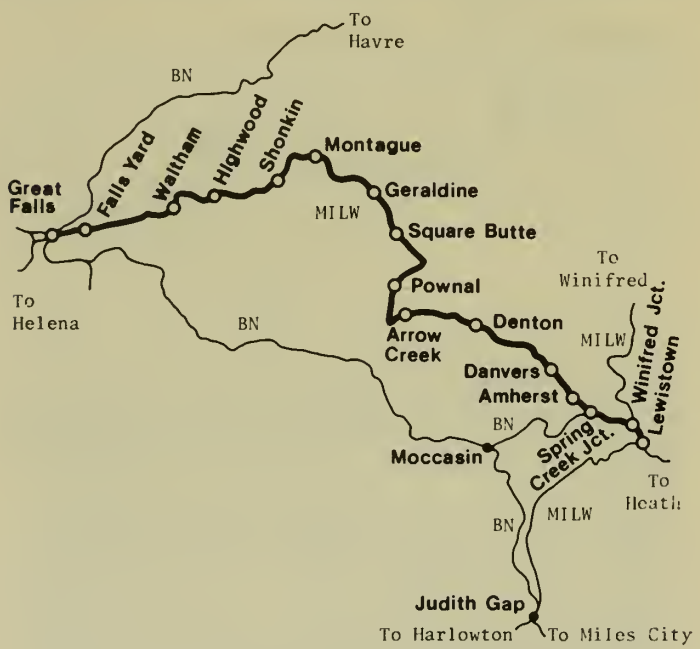
thousand per year profit with present traffic after including a higher allowance for maintenance, an appropriate return on investment, and amortization of Class 2 rehabilitation costs. (The portion of the line between Great Falls and Fairfield, inclusive, earns $182 thousand per year, whereas the portion between Fairfield and Agawam loses approxiately $31 thousand per year.)

The cost of discontinuing rail service (community impacts) for the entire line amounts to approximately $289 thousand annually and is comprised solely of increases in transport costs. (The cost of discontinuing rail service between Fairfield and Choteau is approximately $273 thousand per year, thus accounting for 94 percent of potential abandonment impacts).

No economic basis presently exists for the abandonment of this line (except for the portion between Choteau and Agawam) although the Department anticipates that such an abandonment application will shortly be filed by the Milwaukee as part of its reorganization efforts. Since the line between Great Falls and Fairfield or Fairfield and Choteau appears profitable, the Department will seek the continuation of rail service for shippers located at Fairfield and Choteau. Which segment is retained depends upon whether the Milwaukee remains in business, either in its present form or as some type of successor railroad in the northwest. If this happens, then retention of the trackage between Vaughn and Fairfield would be practical. Otherwise, the segment between Fairfield and Eastham Junction should be sold to the Burlington Northern.

Line 2: Great Falls to Lewistown

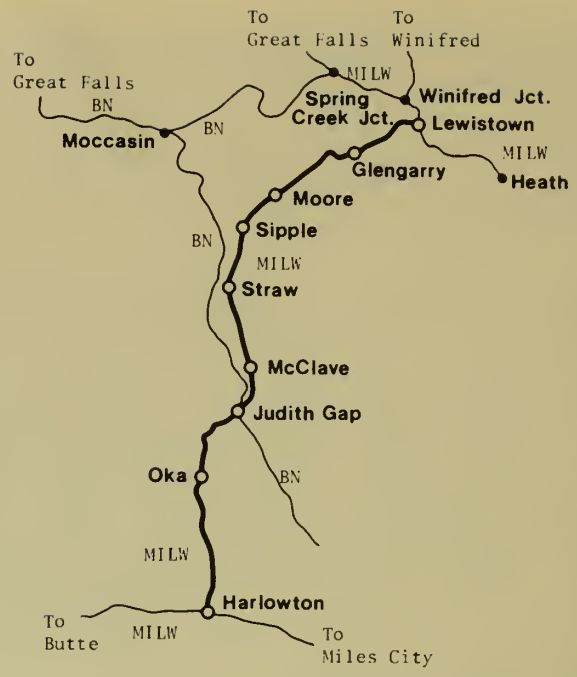
This line, which consists of most of the 13th Subdivision, and a small portion of the 14th Subdivision of the Chicago, Milwaukee, St. Paul and Pacific Railroad's Montana Division, extends from Lewistown to the railroad bridge across the Missouri River at Great Falls, a distance of approximately 138.1 miles in Cascade, Choteau, and Fergus Counties. This line is also affected by the Milwaukee's announced intention to abandon all lines west of Miles City.



Line 3: Lewistown to Harlowton

This line, which consists of the 10th Subdivision, and a small portion of the 13th Subdivision of the Chicago, Milwaukee, St. Paul and Pacific Railroad's Montana Division, extends from Harlowton (on the Milwaukee's 4th Subdivision Main Line) to Lewistown, a distance of approximately 62.3 miles in Fergus, Judith Basin, and Wheatland Counties. This line is also affected by the Milwaukee's announced intention to abandon all lines west of Miles City.

Financial analysis of Lines 2 and 3 by MDH indicates profitability under virtually all of the ownership, configuration, investment and traffic scenarios investigated. Profitability would increase were the line rehabilitated. Thus, no economic basis presently exists for abandonment although the MDH expects such a request by the Milwaukee as a part of its reorganization efforts.



The two major problems facing any future operator of this line are the obsolescence of the physical plant and the apparent traffic erosion which results from car availability and unreliable transit times. Simply retaining the present rail trackage and continuing business as usual is insufficient; whoever operates the line must attack and solve the fundamental problems affecting the quality of the service being offered, thus stemming and revising the diversion taking place in the last two to three years. Otherwise, the long-term viability of this grain line cannot be assured.

Basically, there are four alternatives:

1. Allow abandonment to take place, thus forcing all grain to move by truck either to nearby grain public warehouses in Great Falls and Fort Benton, to river ports such as Lewistown and Central Ferry, or be trucked all-the-way to the west coast or midwest destinations.
2. Continue rail service as it has been provided in the past.
3. Continue rail service utilizing an upgraded track structure capable of handling fully-laden 100-ton hopper cars.
4. Thoroughly investigate the grain subterminal concept and, if workable, implement as a "pilot" terminal for similar facilities to be eventually constructed elsewhere in Montana.

A complicating factor is whether the Milwaukee remains in business, either in its present form or as some type of successor railroad in the northwest. If the Milwaukee stays, then MDH has little choice other than alternate 1 (some minor consolidation of facilities between the Burlington Northern and the Milwaukee would still be possible). The Milwaukee or successor railroad simply needs all the revenue it can get. If the Milwaukee goes, then Montana has more freedom of action to address the underlying problems. If the grain terminal concept proves feasible, then MDH and MDA should proceed to implement this solution, phasing out rail service along this line only when the subterminal becomes fully operational. If the grain subterminal is not practical or feasible, then the MDH recommends a rationalization of plant and consolidation of facilities, where practical, and rehabilitation of the remaining trackage.

The cost of discontinuing rail service (community impacts) for the entire line amount to approximately $1.23 million annually ($1.12 million excluding Great Falls). Most of this is comprised of increases in transport costs.

Line 4: Lewistown to Winifred

This line, the 12th Subdivision of Chicago, Milwaukee, St. Paul and Pacific Railroad's Montana Division, extends from Winifred Jct. west of Lewistown to Winifred, a distance of 42.7 miles in Fergus County. By application filed September 1, 1978, the

Milwaukee Road is seeking authority to abandon the entire line.

Although Milwaukee records indicate that the line returns a $91 thousand per year profit, this reflects minimal maintenance of way and structures expenditures and no return on investment. Including a higher allowance for maintenance and an appropriate return on investment, the line appears to lose about $145 thousand per year with present traffic (including amortization of Class 1 rehabilitation costs).

The cost of discontinuing rail service (community impacts) for the line amounts to approximately $44 thousand annually and is comprised solely of increases in transport costs. The ratio of the cost of discontinuing rail service to those of continuing such service (analogous to a benefit-cost ratio) is 0.30. Since this ratio is substantially less than 1.0, MDH concludes that the economic benefits achieved are insufficient to warrant the continuation of rail service, if the ICC issues a certificate of public convenience and necessity, thus permitting the abandonment of this line. Other factors affecting this are (1) the primary beneficiary is one public grain warehouse, (2) the magnitude of the rehabilitation expenditures required for this line, and (3) the great need for Section 803 funds on other projects offering a far greater return on the investment of federal and local funds.

Line 5: Lewistown to Heath

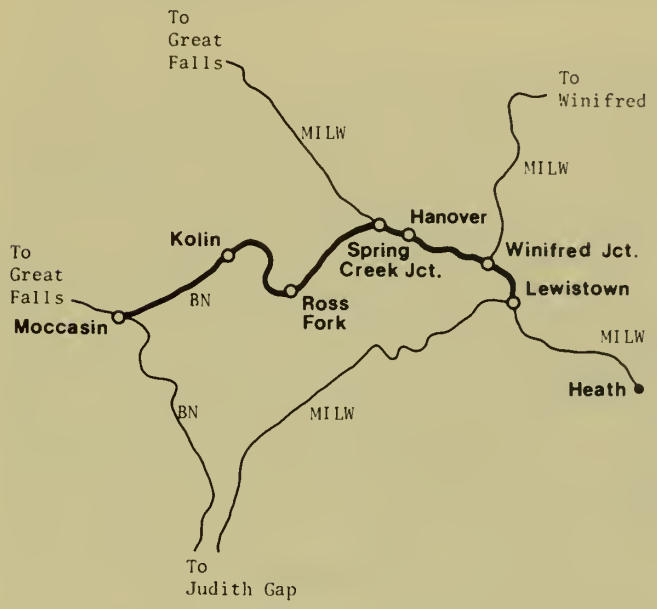
This line, the 11th Subdivision of the Chicago, Milwaukee, St. Paul and Pacific Railroad's Montana Division, extends from the Lewistown yard to Heath, a distance of 9.2 miles in Fergus County. This line is also affected by the Milwaukee's announced intention to abandon all lines west of Miles City.

Based on MDH calculations, the line appears to lose about $4 thousand per year with present traffic, including amortization of Class 1 rehabilitation costs.[3] Under Burlington Northern operation, the line would appear to lose $3 thousand under the same conditions.

[3] Excluding rehabilitation costs, the line would return a $6 thousand per year profit.

The cost of discontinuing rail service (community impacts) for the line amounts to approximately $3 thousand annually and is comprised solely of increases in transport costs. The ratio of the costs of discontinuing rail service to those of continuing such service is 0.3. Since this ratio is less than 1.0, MDH concludes that the economic benefits achieved may not be sufficient to warrant the continuation of rail service, assuming that the Milwaukee will seek the abandonment of this line. Other factors affecting this are (1) the primary beneficiary is one firm, (2) the magnitude of the rehabilitation expenditures required for this line, and (3) the great need for Section 803 funds on other projects offering a far greater return on the investment of federal and local funds.

Line 6: Moccasin to Lewistown



This line, the 11th Subdivision of the Burlington Northern's Montana Division, extends from Moccasin (on the BN's 5th Subdivision Main Line) to Lewistown, a distance of 30.7 miles in Judith Basin and Fergus Counties. Between Lewistown and Spring Creek Jct. (a distance of 9.2 miles), the BN has trackage rights over the Milwaukee's 13th Subdivision.

The decision comes down to which carrier and rail line should be used in providing continuing rail service to Lewistown. Normally, this would be the carrier having the greatest share of the business, which in this case, would be the Milwaukee. However, in view of the Milwaukee's announced intentions to discontinue its operations west of Miles City, continued service by the Burlington Northern over this line may be necessary to ensure continued rail service into Lewistown. The choice of which line to use in providing continued rail service depends upon (1) whether the Burlington Northern or the Milwaukee is to provide continuing service to the Lewistown market, (2) the cost of rehabilitating the various lines providing access to Lewistown, (3) the connections to the rail system and the operating efficiency of one line versus another, and (4) acquisition costs if the line selected is not presently owned by the carrier providing continuing service.

Based on MDH calculations, the line appears to lose about $246 thousand with present traffic, including amortization of Class 2 rehabilitations costs. Including Milwaukee traffic, the line would appear to return a profit of $78 thousand per year under the same conditions.

The cost of discontinuing rail service (community impacts) for the line amounts to approximately $10 thousand annually and is comprised solely of increases in transport costs. The ratio of the costs of discontinuing rail service to those of continuing such service is 0.04. Since this ratio is substantially less than 1.0, no economic basis exists for continuing competitive rail service on this line.

Line 7: Hogeland to Saco

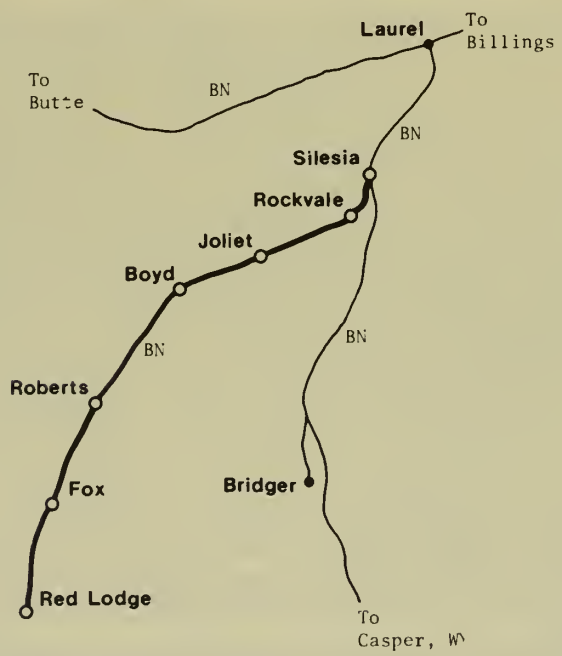
This line, the 7th Subdivision of the Burlington Northern's Montana Division, extends from Saco (on the BN's 1st Subdivision

Main Line) to Hogeland, a distance of 79.3 miles in Phillips and Blaine Counties.

Although Burlington Northern records indicate that the line returns a $15 thousand per year profit, this reflects minimal maintenance of way and structures expenditures and no return on the investment. Including a higher allowance for maintenance and an appropriate return on investment, the line appears to lose about $290 thousand per year with present traffic.

The cost of discontinuing rail service (community impacts) for the line amounts to approximately $98 thousand annually and is comprised solely of increases in transport costs. The ratio of the cost of discontinuing rail service to continuing such service is 0.34. Since this ratio is substantially less than 1.0, MDH concludes that the economic benefits achieved are insufficient to warrant the continuation of rail service, if the Burlington Northern should seek the abandonment of this line. In view of the need for Section 803 funds on other projects offering a far greater return on the investment of federal local funds, MDH is not optimistic that rail service can be retained on this line over the long term.

Line 8: Red Lodge to Silesia



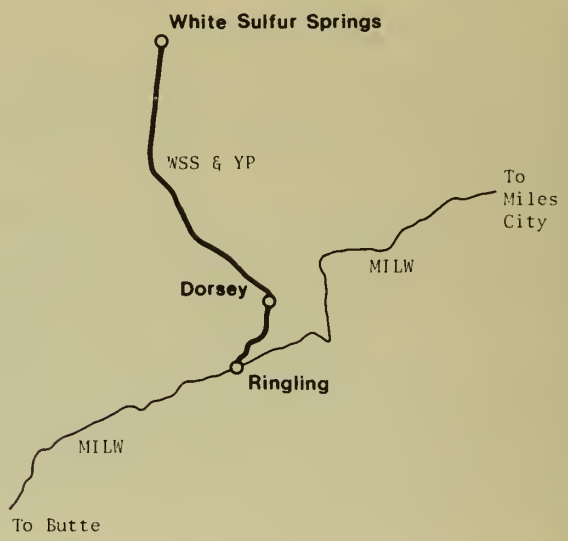
This line, the 9th Subdivision of the Burlington Northern's Rocky Mountain Division, extends from Silesia (on the BN's 7th Subdivision Main Line) to Red Lodge, a distance of 34.5 miles in Carbon County. By application filed May 18, 1978, the Burlington Northern is seeking authority to abandon the entire line.

Burlington Northern branchline accounts records indicate that the line incurs a $20 thousand per year loss, not including return on investment. Including a higher allowance for maintenance of way and structures and a return on investment, the line appears to lose about $195 thousand per year with present traffic. Including the coal production envisioned by the Beartooth Coal Company (600 carloads in the first year and 3,000 carloads by the third year), the line would lose about $291 thousand in the first year (without rehabilitation) and return a profit (with Class 2 rehabilitation) of approximately $253 thousand in the third year.

MDH concludes that abandonment of the Red Lodge to Silesia Line at this time would be premature. The Department recommends that both parties enter into negotiations to achieve a solution whereby (1) the financial interests of the railroad are protected, (2) the line (or at least the right-of-way) is preserved for future rail access into the area, should coal production require more direct rail access, and (3) excessive use of the state highway system by heavily laden coal trucks is avoided, thus eliminating undue financial burdens on the state. If after a reasonable period of time (say one to two years) the coal traffic does not develop or develops at a rate far less than that projected by the coal company, then the Department would not oppose the abandonment of this line.

This abandonment is being processed under the ICC's modified procedure; all statements and briefs have already been filed. The above assessment may be moot if the ICC reaches a decision that public convenience and necessity permit the abandonment of this line.

Line 9: Ringling to White Sulphur Springs



This line, of which 3.5 miles is owned by the Chicago, Milwaukee, St. Paul and Pacific Railroad and the remainder by the White Sulfur Springs and Yellowstone Park Railway, extends from Ringling (on the Milwaukee's 4th Subdivision Main Line) to White Sulfur Springs, a distance of 22.8 miles in Meagher County. By application filed August 18, 1978, the Milwaukee is seeking authority to abandon the portion between Ringling and Dorsey presently leased, operated and maintained by the White Sulfur Springs and Yellowstone Park Railroad.

Worksheet VII presents a distributional analysis of the gains and losses experienced by various groups over a four-year period, were rail service discontinued. The figures are based on component calculations made in determining the cost of discontinuing rail service.

WSS&YP Railway records indicate that the line incurs a $25 thousand per year profit, not including return on investment. Including a considerably higher allowance for maintenance of way and structures and a return on investment, the line appears to lose about $29 thousand per year with present traffic (including amortization of Class 1 rehabilitation costs). So long as the Milwaukee continues to operate its mainline and major maintenance of way and structures can be postponed, the line should continue to earn a modest profit.

The cost of discontinuing rail service (community impacts) for the line amounts to approximately $94 thousand annually and is comprised solely of transport cost increases. The ratio of the costs of discontinuing rail service to those of continuing such service is 3.3. Thus, economic and social arguments could be made for funds on other projects offering far greater economic benefits, MDH is not optimistic that rail service could be retained on this line, especially if the Milwaukee mainline is abandoned.

Line 10: Glasgow to Glasgow AFB

This Burlington Northern industrial track extends from Glasgow (on the BN's Montana Division - 1st Subdivision Main Line) to the Valley Industrial Park (formerly the Glasgow Air Force Base), a distance of 18.8 miles in Valley County.

Although MDH estimates indicate that the present difference between attributable revenues and avoidable costs is only in the order of $5,000 per year, this reflects minimal maintenance of way and structures expenditures and no return on the investment. Including an approximate return on investment and a more realistic allowance for maintenance of way and structures, the line would appear to lose around $142 thousand per year with present traffic.

The key factor is the long-term traffic potential of the industrial park. While the Department hopes that the Burlington Northern will not seek the abandonment of this line until the traffic potential of the industrial park can be better determined, it appreciates and recognizes the railroad's desire to elimate unprofitable operations and recoup the capital tied up in the track.[4] The department further recognizes the importance of maintaining rail access to the industrial park in attracting prospective tenants. If by the end of 1980 it becomes apparent that significant rail traffic is unlikely, the Department recommends either purchase of the line by the Valley Industrial Park, Inc. abandonment of service on the line. In the intervening period (until the potential of the line can be established), and Burlington Northern should be relieved of any net cost associated with the line, save opportunity cost.

Project Selection

The selections of projects to be funded under the Section 803 program must start from the results of individual line assessments. The merit of any line depends directly upon the costs of discontinuing rail service (community impacts) versus the costs of continuing rail service. Lines can best be prioritized using the following system:

- **Group A.** Lines which are inherently profitable (i.e., attributable revenues exceed avoidable costs).
- **Group B.** Marginally profitable lines, or lines which will earn a profit once rehabilitated.
- **Group C.** Lines having strong socio-economic justification (i.e., the costs of discontinuing rail service are substantially greater than the cost of continuing such service), although inherently unprofitable.
- **Group D.** Lines not having strong socio-economic justification and thus should not be continued.
- **Group E.** Lines which are presently unprofitable, but may have sufficient traffic potential from on-going or expected ecomonic development to become profitable within a short time period.

Presently, Montana's allotment of Section 803 funds is minimal, due to the relatively limited amount of abandonment taking place in the state since the passage of the 4R Act and the nature of the formula allocating funds among the states. Consequently, the amount of rehabilitation or other types of projects that can be undertaken under the Section 803 program at this time is extremely limited. Thus, projects must be limited to Group A lines. The three lines in Group A are (1) Agawan (Fairfield) to Great Falls, (2) Great Falls to Lewistown, and (3) Lewistown to Harlowton. All three are Milwaukee lines. This result is a consequence of the detailed assessments rather from seeking to retain the Milwaukee as a competitor to the Burlington Northern.

Preparation of a list of projects would have been far easier had Milwaukee's future been settled, one way or another. Given the present situation, one list of projects and their assigned priorities is impossible. Consequently, projects vary with the various alternatives to or extensions of the expected Trustee's reorganization plan. Even so, project selection depends primarily directly upon its individual merits, as determined through the assessment process described in the previous newsletter and in Technical Appendices A and B.

Should the amount of Section 803 funds available to Montana increase substantially in future years, then it will become possible to undertake other projects in addition to the light density line rehabilitation outlined in Table 10. In particular, it would then become feasible to utilize Section 803 funds to improve highway segments receiving increased truck movements caused by rail line abandonments. Typical projects would include pavement overlays and bridge replacement (to eliminate load restrictions).

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[4] The 130 pound rail and other track materials could be readily utilized elsewhere on the Burlington Northern.

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Rail Planning Section
Montana Department of Highways
2701 Prospect Ave.
Helena, MT 59601

August 1, 1979 Number 3

MONTANA RAIL PLANNING

Reminder

PUBLIC INFORMATION MEETING
ON THE DRAFT **MONTANA RAIL PLAN** TO BE HELD ON
MONDAY, AUGUST 6, 1979 At 7:30 P.M.
DEPARTMENT OF HIGHWAYS AUDITORIUM
2701 PROSPECT AVENUE, HELENA

REMINDER

ALL COMMENTS ON THE DRAFT **MONTANA RAIL PLAN** MUST REACH THE DEPARTMENT NOT LATER THAN MONDAY, AUGUST 13, 1979 FOR CONSIDERATION IN PREPARING THE FINAL PLAN DOCUMENT.

EDITORS NOTE

This is the third edition of a newsletter prepared by the Rail Planning Unit of the Montana Department of Highways to keep those interested in rail planning in Montana informed of (1) the status of planning activities, (2) criteria and goals for rail service, (3) the analytical methods being utilized, and (4) findings and conclusions;

This edition is devoted to the draft **Montana Rail Plan** which is available for public review at MDH Division offices, public libraries, and some county and city governmental offices. The newsletter is divided into two parts. The first part (1) provides details on the public information meeting and the availability of the plan document, (2) presents an executive summary of the plan, and (3) describes what comes next. The second part provides more detailed information on (1) the Milwaukee situation and recent reorganization proposals, (2) the results of individual light density line assessments, and (3) factors affecting the selection of projects. All comments on the draft plan (or this newsletter) should be forwarded to:

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Montana Department of Highways
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(406)449-3984